

June 4, 2015

A Special Board meeting of the Electric and Water Plant Board of the City of Frankfort, Kentucky, was held at Farmers Banks and Capital Trust, located at 125 W, Main Street, Frankfort, Kentucky, on Tuesday, June 4, 2015 at 1:00 p.m.

ATTENDANCE:

Ralph Ludwig, Board Chair
Dr. Scott Green, Board Vice Chair
Rick Pogrotsky, Board Secretary/Treasurer
Arthur McKee, Board Member
James Liebman, Board Attorney
Herbbie Bannister, General Manager
David Billings, Chief Water Engineer
Billy Briscoe, Water Dist. Supt.
Harvey Couch, Marketing and Video Content Coordinator
Katrina Cummins, Asst. Finance Director
David Denton, Finance Director
Vent Foster, Chief Electrical Engineer/Asst. GM Operations
Monique Gilliam, Customer Service Director
Dana Hawkins, Executive Assistant
John Higginbotham, Asst. GM Cable/Telecommunications
Scott Hudson, Electric Supt.
Karl Pitzer, IT Director
Kathy Poe, Executive Assistant
Hance Price, Staff Attorney/Asst. GM Administration
Mark Redmon, Support Services Director
Chris Riddle, WTP Superintendent
Julie Roney, Asst. WTP Superintendent
Kim Phillips, Safety Director
Dianne Schneider, Human Resource Director
Glenn Waldrop, Public Information Officer
Seth Littrell, State Journal Reporter

AGENDA

The Agenda for the Board Meeting was received and entered into the Minute Book as follows:

JUNE 4, 2015 BOARD MEETING AGENDA

1. **Informational Item: Review of FY 15-16 Budget.**

BOARD ACTION

Mr. Ludwig called the meeting to order at 1:10 p.m. Ms. Poe called the roll. She noted four (4) board members in attendance and noted Ms. Patricia Lynch absent.

1. **Informational Item: Review of FY 15-16 Budget.**

Mr. Denton asked the Board if there were any questions from the previous Budget work session.

Mr. Denton explained the format for the individual lines of business.

Mr. Denton explained the funding summary for the Electric division.

Mr. Denton discussed rate increases. He advised that in fiscal years 17-20 of the financial plan, Staff had included a 1% true electric rate increase to recover

operating costs. He further discussed generational subsidizing if rate increases are not implemented to cover operating expenses.

Mr. Denton specifically discussed net income, operating revenues and expenses, allocable expenses, cash transactions and ending reserves. He explained a projected negative net income and noted that as the reason for the 1% FPB rate increase in electric in fiscal years 17-20 of the financial plan. He advised that FPB last had a true rate increase, outside of the Kentucky Utilities pass through increases, in 1996 and 2009.

Mr. Denton explained depreciation expense, bond and loan payments, customer deposit refunds, capital addition projects and reserve balances for the electric division.

In response to Mr. Ludwig, Mr. Denton stated that the 1% electric increase is budgeted to begin in the 16-17 fiscal year.

In response to Mr. McKee, Mr. Denton explained the process of refunding customer deposits. He noted that if a customer deposit was not refunded at termination of service and Staff is unable to locate the customer, the funds are turned over to State of Kentucky Division of Unclaimed Property for distribution. Mr. Denton stated that the process would require additional work for customer service representatives but noted that FPB is now refunding all customer deposits at termination of service.

Mr. Denton explained specifics of the Electric Division income statement and explained how the numbers reflect back to funding summary. He further explained that large power and residential customers made the largest percentage of the electric revenues. He explained other revenues and capital contributions.

Mr. Denton stated that the electric department would purchase more than \$49 million in wholesale power from Kentucky Utilities in the 15-16 fiscal year. He further explained depreciation expense and how that would be accounted for throughout the budget and financial plan.

Mr. Bannister explained the Kentucky State University Project in connection with capital contributions and noted the project as the difference in the 15-16 budget as compared to fiscal years 17 - 20 in the financial plan. Mr. Denton stated that fiscal years 17-20 were estimates.

In response to Mr. Pogrosky, Mr. Denton explained the flow and break out of numbers from one section to another.

In response to Mr. Ludwig, Mr. Denton explained the structure for payment of utility services for water, electric and cable used by FPB. He noted that FPB's methods were standard ledger procedures. Mr. Higginbotham explained how internal Cable/Telecommunications services are billed to and paid by FPB.

Mr. Denton discussed the Water department budget. He explained revenues, direct operating expenses, total gross margin, and allocated expenses. He noted that water revenues equaled approximately 10.5% of the total revenue for FPB. Mr. Denton advised that the water revenue increases shown were due to rate increases throughout the budget and financial plan. He discussed water usage and stated that historically water usage had declined annually. He further noted a 3% rate increase in the 15-16 budget and a 5% rate increase for each year thereafter through the financial plan.

Mr. Denton explained specifics of depreciation, loan and bond expenses, as well as capital additions, and reserve balances for each year of the budget and financial plan. He advised that the goal was to have each division stand alone with its reserve funds and further advised that legally water and electric reserves can be combined. He stated that water was not meeting its numbers at this time but Staff

believes the numbers will improve. He further noted that Staff is looking at every area for cost cutting and cost savings. Mr. Denton stated that it is the goal of Staff to provide the best utility services for the lowest costs possible.

In response to Mr. Pogrotsky, Mr. Denton explained allocated costs to the water division from each support division. Mr. Denton further advised that some of the issues with the water division are allocated expenses and some are water specific projects. Mr. Bannister stated that Staff will be looking at policies for replacement of vehicles and each line item contributing to allocable expenses. He advised that Staff will do what is necessary to reverse the underfunding of water reserves.

Mr. Denton stated that residential customers accounted for 41% of the water division revenues. He further explained a breakdown of expenses and noted a change on line 145 for pumping power. He stated that the budget would be revised to note \$550,000 on line 145 with an increase of 5.5% each year through the financial plan.

In response to Dr. Green, Mr. Denton explained the City and County residential rates.

In response to Mr. Ludwig, Mr. Denton discussed wholesale customers and their rates. He discussed a rate increase for Georgetown and the status of wholesale non-water producers. Mr. Billings stated that Georgetown can also purchase water from Kentucky American.

Mr. Denton stated that Water was looking to outperform in the current fiscal year due to a change in depreciation estimates.

Mr. Denton discussed Cable department revenues, expenses, gross margins, allocable expenses and final net position. He explained debt payments, allocable capital additions and reserve balances. He noted the DTA note would be paid in full in the 15-16 fiscal year which would be about 18 months early. He noted that reserve balances will increase over the financial plan.

Mr. Denton explained increased expenses for programming based on known contractual agreements already in place and estimated increases anticipated by Staff.

In response to Mr. McKee, Mr. Higginbotham stated that any service area expansion would include all cable/telecom services. He advised that anticipated expansion numbers were not included in this financial plan because it was too difficult to estimate the number of new customers at this time. He further explained growth in Broadband and the corresponding budget numbers.

In response to Mr. McKee, Mr. Higginbotham stated that Staff was showing increases in the standard definition set top boxes due to the discontinuation of the DTA boxes. He noted a price decrease for the standard definition boxes, and explained the corresponding numbers in the budget and financial plan. Mr. Higginbotham further discussed bandwidth expenses for broadband. He advised that FPB is now able to purchase more wholesale bandwidth for less money.

In response to Mr. Pogrotsky, Mr. Higginbotham explained acronyms for broadband and local telephone services.

In response to Mr. McKee, Mr. Higginbotham explained internal changes FPB will make for Pay per View (PPV) purchases to mitigate issues in the future. He further noted that PPV purchases have decreased and underperformed in the current fiscal year.

In response to Mr. Pogrotsky, Mr. Bannister stated that Staff has begun a more in depth review of actual expenses in order to make cuts and reduce expenses. He noted that FPB will continue to outperform its budget and that Staff will continue to

review purchases and expenses in every area. He stated that all departments cut projects for this budget cycle. He stated that everything has to be reviewed and that Staff will continue to reduce operating and allocable expenses. Mr. Bannister stated that the Water department revenues and overall reserves will be improved.

In response to Mr. McKee, Mr. Higginbotham explained how community in kind services are budgeted to allow FPB to assist with community events. He further noted that those expenses are calculated into the rates for the Classic Cable Tier.

Mr. Denton explained FPB's responsibilities under House Bill 1, specifically pursuant to KRS 65A. He advised that the Board must approve a Budget by the end of the current fiscal year. He further explained the information to be provided to the Department of Local Government (DOLG) and posted on their website. He stated that this fiscal year's actual budget numbers would also be posted on the DOLG website.

Mr. Denton stated that Staff will come back to the Board at the regular meeting on June 16 with this Budget including the changes discussed for final approval. He noted that any changes between now and June 16 can be made for approval on June 16. He further advised that changes can also be made and implemented in the future.

In response to Mr. McKee, Mr. Bannister stated that the list of take home vehicles was not typically included in a budget document. Mr. Denton agreed and noted that take home vehicle information was part of FPB policy and not necessary for the budget document.

Mr. Denton commended staff for their efforts in preparing the budget and financial plan.

Mr. Ludwig asked for any additional comments or questions.

With no further discussion, Mr. Pogrosky moved to adjourn. Dr. Green seconded. The motion passed and the meeting adjourned.



ATTEST: